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FINANCES AND COSTS OF THE PRESENT EUROPEAN WAR

PREPARED BY THE WAR COLLEGE DIVISION, GENERAL STAFF CORPS
AS A SUPPLEMENT TO THE STATEMENT OF A PROPER MILITARY
POLICY FOR THE UNITED STATES

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FINANCES AND COSTS OF THE PRESENT EUROPEAN WAR.

INTRODUCTION.

A careful search of the files of the War College has been made for data covering the various points of the study. The results are embodied in the following pages. As was to have been expected, accurate data are almost wholly lacking, and such as have been secured are of doubtful accuracy. The various warring nations are naturally not publishing information on this subject at this time, and the majority of the figures quoted in the following pages are little better than estimates.

1. POLICY EMPLOYED IN FINANCING THE WAR.

(a) *Great Britain*.—Prior to the outbreak of hostilities Great Britain had made no plans for putting the country upon a sound financial basis for war. The Imperial Government was as unprepared to meet the financial emergency caused by the war as it was to oppose the trained armies of central Europe with an adequate number of properly trained and equipped troops. Since the beginning of hostilities England has endeavored to meet the situation by laying heavy taxes on imports, "war profits," incomes, spirits, tea, etc., and in some cases the taxes on incomes have amounted to 83 per cent. The increased income derived from these sources has, of course, proven utterly inadequate to provide the huge sums necessary for the maintenance of the Government and the prosecution of the war. Great Britain has therefore been obliged to borrow extensively, and according to the best available information the amount she has obtained in this way at home since the beginning of the war is approximately \$5,489,000,000. Her foreign war loans aggregate approximately \$250,000,000.

England has joined with France and Russia in providing a fund of \$200,000,000 for meeting in part the war expenses of Belgium, Japan, and Serbia, and in addition it is believed has loaned Belgium \$50,000,000 and Serbia \$4,000,000 without interest until the end of the war.

(b) *France*.—The outbreak of hostilities in August, 1914, found France well prepared financially to enter the war. For some years

prior thereto France, like Germany and Russia, had been building up a war reserve which, when war came, enabled her to put her well-trained and equipped armies into the field with the assurance that for a time at least there was no fear of a lack of funds for the prosecution of the war. However, it soon became apparent that France, like all other nations involved in the war, must resort to borrowing to meet the enormous expenses of the situation. Since the war began France has borrowed at home approximately \$1,680,000,000. A portion of this sum was obtained directly from the French people, who subscribed liberally to what was known as National-Defense Bonds, which ran for from 6 to 12 months and bore interest at 5 per cent. A later domestic loan which made up the total sum borrowed at home was floated through the Bank of France in the form of bonds for a term of years and bearing interest at 5 per cent. Later, in order to secure gold for purchases abroad, the Government called upon the people to exchange bullion for paper currency and even to turn into the treasury gold ornaments, jewelry, etc. The response to these requests was most patriotic.

France has also joined with England in negotiating in the United States a loan of \$500,000,000 at 5 per cent, and has contributed to a fund of \$200,000,000 to meet in part the war expenses of Belgium, Japan, and Serbia. Her other foreign loans aggregate \$148,000,000, and are shown in more detail under (b) Table 4.

(c) *Russia*.—Russia had accumulated a large war reserve at the outbreak of hostilities. Part of this reserve which was on deposit in Berlin was withdrawn during the week preceding the war. The increased expenses due to the war are being met by increasing the rates of taxes already in force and by borrowing. So far as known, Russia since the beginning of the war has made three domestic loans aggregating about \$1,339,000,000. She has also joined with England and France in providing a fund of \$200,000,000 to meet in part the war expenses of Belgium, Japan, and Serbia.

(d) *Italy*.—No data are available respecting the financial policy of Italy or the measures so far adopted to meet war conditions. She has borrowed about \$425,000,000.

(e) *Belgium*.—Nothing is known of the policy of Belgium with respect to financing the war except that she has been aided by Great Britain, France, and Russia, as already stated. She has, however, been aided by Great Britain by a loan of \$50,000,000 without interest.

(f) *Serbia*.—Same as for Belgium. Great Britain has loaned Serbia \$4,000,000 without interest.

(g) *Japan*.—No data available.

(h) *Germany*.—The following abstract of a description of the German method of financing the present war, by Roland G. Usher,

in the December, 1914, issue of the *Atlantic Monthly*, is given as the best and clearest exposition of the subject yet available:

Great sums of ready money have invariably been needed in Anglo-Saxon countries in order to begin a war, because those countries have invariably been caught unprepared. The Government has lacked not only the necessary materials, but the knowledge of their whereabouts, and has had to find them by ordinary business methods, which meant buying them in open market with money. England and the United States have always obtained in the same way the supplies and munitions needed to prosecute war and have always found an abundant supply of stable currency the indispensable nexus between the Government and its citizens by whom the commodities were produced.

German statesmen and financiers have, however, arrived at an entirely different solution of the question. The German system of "financing" war depends upon the following:

The army requires *material* for its use and maintenance as does the nation at large, and steps were taken in time of peace to insure the supply of this material upon the outbreak and continuance of war.

Certain supplies Germany did not and could not produce and those supplies were purchased and stored in quantity before the outbreak of war. The vast supplies necessary at the outbreak of war and before their manufacture could be increased were also purchased and stored.

Certain other supplies Germany did not produce in normal times or did not produce them in the quantity sufficient for prosecuting war. These supplies could be produced, however, if adequate preparation were made therefor in advance.

Supplies of both the above classes would be necessary not only for the use of the army, but for the nation at large as well.

In order to gather the class of supplies which she could not produce at any time, capital was necessary with which to purchase them. Capital was also necessary for the purpose of subsidizing manufactures for the supply of materials which would be needed in increased quantities in time of war and which required special machinery and skilled labor for their production. To secure this capital Germany imposed before the outbreak of war a "war levy," which was a direct tax, amounting to \$250,000,000, which, they explained, was necessary to render the army efficient. With the capital thus obtained she "purchased in Germany and abroad every conceivable sort of supplies necessary to put the nation in position necessary to make war."

As Germany employs the system of universal military service, she can tell just what men will be called away from their usual pursuits upon the outbreak of war. She knew in advance, therefore, just what men would have to be replaced by individuals not to be called to the colors in order to provide for the supply of commodities neces-

sary during war. She therefore subsidized manufactures in order to enable them to place in the factories the machinery which would be required during war and to train enough additional labor for operating the machinery—the additional laborers to consist of individuals who were not to be called to the colors.

In this manner Germany prepared in peace for the supplies she would need in war.

Money in time of war, as at any other time, the Germans concluded, meant currency, and currency meant some medium of exchange which would be accepted by the people at face value. So long as the public confidence in the Government was unshaken and ultimate success was believed certain, a paper currency would serve the purpose much better than specie. The banking system, to be sure, collected gold as assiduously as it could during the months preceding the war and is supposed to have vastly increased the German gold reserve, which was to give stability to the paper currency and furnish a firm basis for such international exchange as they might eventually find necessary. The central banking system, however, * * * could absolutely control all exchange, could accept as collateral for loans whatever the individual had to offer and issue him paper credits. There would be plenty of real value because there would be plenty of real work; the Government would see to that.

The banks would make loans to the manufacturer and establish a checking account on which they would pay him paper, which in time he would pay his employees, who would pay it out for commodities. The dealers would pay it back into the banks, when the whole transaction would, as usual, be canceled.

In this way Germany is attempting to avoid the necessity for borrowing the vast sums from neutral countries which the other warring nations are apparently going to have to do.

The bond issues which she has made are not concerned with the war itself so much as with the necessary readjustments after the war is over.

As observers we are not yet in a position to pass upon the ultimate validity of these measures. We can only point out that they seem to conform accurately to the experience of history and to be nothing more than the literal application of the simple postulates of political economy. So far as we can tell, if private letters are any evidence of what conditions in Germany at present are, every indication points toward the overwhelming success of German finance.

(i) *Austria-Hungary*.—No data are available concerning the plans of the Government of Austria-Hungary for financing the war. It is known that she has borrowed money and that her first loan was made quietly through the banks, but the amount so obtained and the rate of interest paid are not definitely known. Her total domestic loans amount to \$1,181,000,000. No further data concerning the financial transactions of Austria-Hungary are available.

(k) *Turkey*.—It is reported that Turkey has received material financial aid from Germany in the form of a loan of \$250,000,000. No other data concerning the financial policy and transactions of Turkey are available.

2. COST OF THE WAR.

In so far as this can be ascertained, it is shown by Tables 1 and 2 appended, Table 1 giving what is known of the total cost to date and Table 2 the daily cost at the periods stated. These figures are only estimates, of course, and, as it is generally conceded that the war is becoming increasingly costly, are probably far below the actual amounts at this time.

3. NUMBER AND AMOUNT OF DOMESTIC LOANS.

The number and amount of domestic loans, in so far as they can be ascertained, are shown in Table 3. It must be understood that the information on this subject comes from various newspapers and that its accuracy can not be vouched for.

4. NUMBER AND AMOUNT OF FOREIGN LOANS.

This information is contained in Table 4. With the exception of the Anglo-French loan made in the United States, the same remarks as to the validity of the information applies here as in the case of domestic loans.

5. A TABLE SHOWING TOTAL AND PER CAPITA NATIONAL WEALTH OF VARIOUS NATIONS AT THE BEGINNING OF THE WAR; ALSO NATIONAL DEBTS IN 1914 AND ESTIMATED AMOUNTS IN 1916.

TABLE 1.—*Cost of the war.*

(a) *Great Britain*.—\$3,525,000,000 for one year only. (Collier's Weekly, Nov. 6-15, p. 11.)

NOTE.—To this amount should be added some portion of \$200,000,000 furnished to Belgium, Serbia, and Japan jointly by Great Britain, Russia, and France.

(b) *France*.—\$1,750,000,000 for period April 1, 1915, to August 1, 1915. (Review of Reviews, April, 1915, p. 452.)

NOTE.—To this amount should be added some portion of \$200,000,000 furnished to Belgium, Serbia, and Japan by Great Britain, Russia, and France.

(c) *Russia*.—\$2,000,000,000 for period April 1, 1915, to August 1, 1915. (Review of Reviews, April, 1915, p. 452.)

NOTE.—To this amount should be added some portion of \$200,000,000 furnished to Belgium, Serbia, and Japan by Great Britain, Russia, and France.

(d) *Italy*.—\$300,000,000 for period April 1, 1915, to August 1, 1915. (Review of Reviews, April, 1915, p. 452.)

(e) *Belgium*.—No data.

(f) *Serbia*.—No data.

(g) *Japan*.—No data.

(*h*) *Germany*.—\$2,500,000,000 (includes Turkey's expenditures) for period April 1, 1915, to August 1, 1915. (Review of Reviews, April, 1915, p. 452.)

(*i*) *Austria-Hungary*.—\$1,500,000,000 for period April 1, 1915, to August 1, 1915. (Review of Reviews, April, 1915, p. 452.)

(*k*) *Turkey*.—See Germany.

TABLE 2.—*Daily cost of the war.*

(*a*) *Great Britain*.—\$14,100,000 (Collier's Weekly, Nov. 6, 1915, p. 11). Present time.

(*b*) *France*.—\$7,000,000 (Literary Digest, Dec. 5, 1914, p. 1151). During August, September, and October, 1914.

(*c*) *Russia*.—No data.

(*d*) *Italy*.—No data.

(*e*) *Belgium*.—No data.

(*f*) *Serbia*.—No data.

(*g*) *Japan*.—No data.

(*h*) *Germany*.—\$5,000,000 to \$7,000,000 (Literary Digest, Dec. 5, 1914, p. 1152). Prior to December, 1914.

(*i*) *Austria-Hungary*.—No data.

(*k*) *Turkey*.—No data.

TABLE 3.—*Domestic loans.*

[Except when otherwise noted, the figures for this table were taken from the Literary Digest, Nov. 20, 1915, p. 1198, quoting New York Times Annalist.]

(*a*) *Great Britain*.—

Bonds 3½ per cent (10 to 13 years sold at 95)-----	\$1,750,000,000
Bonds 4½ per cent-----	2,925,000,000
Five-year exchequer 3s-----	239,000,000
Treasury bills (2½ per cent to 3½ per cent), six months (estimated as now outstanding)-----	575,000,000

NOTE.—When the 4½ per cent loan was made the rate of interest on all preceding loans was voluntarily raised to 4½ per cent, with the promise that if further loans at higher rates of interest became necessary all prior loans should bear such higher rates.

(*b*) *France*.—

Bonds, national defense, 5 per cent (6 to 12 months)-----	\$1,230,000,000
Bonds, Treasury, 5 per cent (a term of years)-----	450,000,000

(*c*) *Russia*.—

Bonds 5 per cent-----	\$515,000,000
Bonds 5½ per cent-----	515,000,000
Bonds 4 per cent-----	309,000,000
Treasury bills at home and in England and France-----	1,252,000,000

(*d*) *Italy*.—

Bonds 5½ per cent-----	\$200,000,000
Bonds 4½ per cent-----	200,000,000

(*e*) *Belgium*.—No data available.

(*f*) *Serbia*.—No data available.

(*g*) *Japan*.—No data available.

(h) *Germany*.—

First war loan 5's.....	\$1, 115, 000, 000
Second war loan 5's.....	2, 265, 000, 000
Third war loan 5's.....	3, 025, 000, 000

(i) *Austria-Hungary*.—

Austrian bonds 5½ per cent.....	\$433, 000, 000
Hungarian bonds 6 per cent.....	237, 000, 000
War loans, credits, etc.....	1, 161, 000, 000

(k) *Turkey*.—No data available.TABLE 4.—*Foreign loans.*

[Except when otherwise noted, the figures for this table were taken from the Literary Digest, Nov. 20, 1915, p. 1198, quoting New York Times Annalist.]

(a) *Great Britain*.—

One-half of Anglo-French credit in New York 5 per cent bonds.....	\$250, 000, 000
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(b) *France*.—

One-year 5 per cent notes in London.....	\$50, 000, 000
One-year 5 per cent notes in New York.....	25, 000, 000
Credits and collateral loan in New York.....	73, 000, 000
One-half Anglo-French loan in New York.....	250, 000, 000

(c) *Russia*.—See "Treasury bills," etc., under (c) *Russia*, table 3.(d) *Italy*.—Loan now being placed in New York, \$25,000,000.

(e) *Belgium*.—\$50,000,000 loaned by British Government during the war without interest.

(f) *Serbia*.—\$4,000,000 loaned by British Government during the war without interest.

(g) *Japan*.—No data available.(h) *Germany*.—

Notes in United States.....	\$10, 000, 000
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(i) *Austria-Hungary*.—No data available.(k) *Turkey*.—

Loan in Germany.....	\$250, 000, 000
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TABLE 5.

	National wealth at beginning of war.	Per capita wealth at beginning of war.		National wealth at beginning of war.	Per capita wealth at beginning of war.
(a) Great Britain.....	\$85, 000, 000, 000	\$1, 777	(g) Japan ¹		
(b) France.....	50, 000, 000, 000	1, 625	(h) Germany.....	\$80, 000, 000, 000	\$923
(c) Russia.....	40, 000, 000, 000	250	(i) Austria-Hungary.....	25, 000, 000, 000	500
(d) Italy.....	20, 000, 000, 000	588	(k) Turkey.....	3, 000, 000, 000	(?)
(e) Belgium.....	9, 000, 000, 000	(?)			
(f) Serbia.....	500, 000, 000	(?)			

NATIONAL DEBT.

	1914	1916		1914	1916
(a) Great Britain.....	\$3, 485, 000, 000	\$11, 000, 000, 000	(g) Japan ¹		
(b) France.....	6, 345, 000, 000	9, 500, 000, 000	(h) Germany.....	\$3, 735, 000, 000	\$9, 985, 000, 000
(c) Russia.....	4, 540, 000, 000	6, 500, 000, 000	(i) Austria-Hungary.....	1, 050, 000, 000	2, 000, 000, 000
(d) Italy.....	2, 850, 000, 000	3, 000, 000, 000	(k) Turkey.....	675, 000, 000	675, 000, 000
(e) Belgium.....	825, 000, 000	825, 000, 000			
(f) Serbia.....	125, 000, 000	125, 000, 000			

¹ No data available.

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